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Key Issues in the Textile and Clothing Sector in Botswana

Masedi Motswapong
Roman Grynberg

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Masedi Motswapong is an Associate Researcher at the Botswana Institute for Development Policy Analysis.

Roman Grynberg is a Senior Research Fellow at the Botswana Institute for Development Policy Analysis.

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Abstract

This paper considers the performance of the Textile and Clothing (TC) sector in Botswana and reviews various national and international incentive schemes aimed at developing TC exports. The analysis shows that domestic policies and preferential trade regimes helped establish the sector and still play a central role in its continued operation. The sector does not operate as yet on the basis of any comparative or commercial advantage. However, the sector has failed to take advantage of existing trade preferences because it is faced with many challenges stemming from the cost of production and efficiency of the sector. The situation worsened, when many workers lost their jobs and exports declined between 2008 and 2010 due to the global economic crisis and phasing out of export incentive schemes, respectively. It is therefore fundamental that appropriate policies and interventions are put in place to secure the sector's growth, development and competitiveness. Once government has determined that the sector is commercially viable in the long term, the short term measures that have been put in place between 2010-11 need to be replaced with measures that address the long term productivity and profitability of the sector.

Executive Summary

- The initial growth of the Textile and Clothing (TC) sector stemmed from the subsidies created under the Financial Assistance Policy (FAP) which began in 1982 and came to an end in 2000. The TC sector in Botswana expanded rapidly as a result of a series of trade preferences available to it under the Southern African Customs Union (SACU) agreement, the Cotonou agreement and the African Growth and Opportunity Act (AGOA).

- The 'lesser developed country' rules of origin for garments of the AGOA were instrumental in allowing Botswana producers to use textiles of any origin to manufacture clothing. Exports to the United States (US) were one of the most important sources of growth of the sector.

- In the last few years garment exports from Botswana to both the European Union (EU) and the US have been in decline as a result of the liberalization of the global market which stems from the phase out of the multi-fibre arrangement (MFA) in 2005.

- The last remaining export market of significance is the SACU market i.e. South Africa which now constitutes approximately 90% of all exports. Exports to the EU, reached Pula 1.1 billion in 2007 are virtually nil in 2011, and exports to the US have fallen to Pula 100 million in 2011.

- The TC industry remains a very important source of employment, especially for women who were particularly hard hit in 2008/9 with the onset of the international economic crisis.

- Employment fell sharply in the sector in 2008 but **recovered by the end of 2009 to pre-crisis levels of 8,000 employees by September 2009 Central Statistics Office (CSO)**. In response to the crisis the government provided the sector with a Special Support Programme of Pula 38 million in wage subsidies at the Ipelegeng rate of P20/day/ worker. The programme thus provided support for employment but was late in its delivery given that employment levels had already recovered by 2010.

- In total there were some **60 firms in the industrial survey conducted by the Botswana Export Development and Investment Authority (BEDIA) in 2007**. There are a total of 31 garment firms receiving Development Approval Order (DAO) certificates from the Ministry of Finance and Development Planning (MFDP). By the end of the program in **December 2011 some 237 firms were receiving assistance from the Special Support Programme**

including a very large number of micro-enterprises that were essentially tailoring shops dealing with the internal market and not export oriented firms. Only 10 of the 237 firms had employment levels over 100 workers.

- Exports rose substantially during the 2 years of the Special Support Programme but **overall employment levels decreased** in the TC sector from their recent peak of September 2009.

- Exports per worker employed in the sector have fallen from P100, 000 per employee in March 2007 to approximately P60, 000 per employee in March 2011.

- Given the collapse in exports to US and EU, government may wish to consider whether the garment export sector is viable and potentially competitive in the longer term if it is to extend further the current program of assistance to the sector.

- If it can be shown that the TC export sector can survive to develop into an internationally competitive supplier then the continuation of direct supports to all producers, irrespective of firm size and market orientation i.e. export or local, is inappropriate as it does not target the sector confronting the problem of competition.

- The current system of wage **subsidies do not address the longer term issue of the levels of productivity of the sector, nor its long term competitiveness and are not a sustainable response to the range of problems confronting the industry.** The government needs to consider developing programs that enhance the longer term productivity of the sector. These include:

    a. Upgrading the vocational training facilities to impart skills and train workers.
    b. The development of industry productivity and efficiency programs similar to the Clothing and Textiles Competitiveness Improvement Programme (CTCIP) in South Africa.
    c. The development of a full industry plan for the sector.

List of Acronyms

AGOA	African Growth and Opportunity Act
ATC	Agreement on Textiles and Clothing
BEDIA	Botswana Export Development and Investment Authority
BIDPA	Botswana Institute for Development Policy Analysis
BLNS	Botswana, Lesotho, Namibia, Swaziland
BTT	Board on Tariffs and Trade
BWP	Botswana Pula
CEDA	Citizen Entrepreneurial Development Agency
CTCIP	Clothing and Textiles Competitiveness Improvement Programme
CSO	Central Statistics Office
DCC	Duty credit certificate
DCCS	Duty credit certificate scheme
DIA	Department of Industrial Affairs
DAO	Development Approval Order
DTI	Department of Trade and Industry
EPA	Economic Partnership Agreements
EU	European Union
FAP	Financial Assistance Policy
FIG	Foreign Investment Grant
GATT	General Agreement on Tariffs and Trade
GEIS	General Export Incentive Scheme
GoB	Government of Botswana
IDC	Industrial Development Corporation
ITAC	International Trade Administration Commission
LDC	Lesser Developed Countries
MFA	Multi Fibre Agreement
MFDP	Ministry of Finance and Development Planning
MFN	Most Favoured Nation
MIP	Manufacturing Investment Program
PI	Productive Incentive
RoO	Rules of Origin
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
SCM	Subsidies and Countervailing Measures

SSA	Sub-Saharan African
TC	Textiles and Clothing
TCF	Textiles, clothing and footwear
TCIDP	Textiles and Clothing Industry Development Programme
US	United States
WTO	World Trade Organization
ZAR	South African Rand

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1. Introduction

The development of the textile and clothing (TC) export sector was vital to the economic interests of Botswana over the last twenty years as it has provided an important source of semi-skilled employment, which alleviates poverty, especially for women and has generated significant export revenue. This sector has traditionally benefited from a number of international trade instruments including relatively high Southern African Customs Union (SACU) tariffs, quotas and export incentives. Botswana has preferential access to important markets for TC products such as the United States (US), through the African Growth and Opportunity Act (AGOA) and European Union (EU) markets[1]. AGOA has had a significant impact on the country's TC sector by providing duty free access to the US market. The preferential trade agreements are crucial to economic growth and development of many developing countries hence they created Botswana's TC sector's potential. However, these preferential trade agreements have experienced considerable preference erosion over time.

Botswana's exports also enjoy duty and quota free access to markets in Lesotho, Namibia, South Africa and Swaziland through SACU and thus products produced within the union generally move freely within the common customs area. Botswana's TC products are also given preferential duty treatment when exported to other Southern African Development Community (SADC) countries outside the SACU market. Botswana's exports including TC are admitted duty and quota free to the EU market through the Interim Economic Partnership Agreement (EPA)[2]. Botswana also has a free trade agreement with Zimbabwe that started in the early 1950s.

The phasing out of the Multi-Fibre Agreement (MFA) on TC at the end of the Uruguay Round of World Trade Organisation (WTO) negotiations has adversely affected the TC sector in Botswana. The Agreement on Textiles and Clothing (ATC) laid out a staged process for liberalization of bilateral import quotas over a ten year transition period, from 1995 to 2005. The elimination of the MFA, just prior to the commencement of the global economic crisis has resulted in a loss of TC exports. Botswana, as well as many developing countries could not compete with the powerful TC producing countries such as India and China which can sell their goods at considerably lower prices on the global market[3]. Textile, clothing and footwear

[1] Trade relations between SACU and EU were governed by the Cotonou Agreement but the agreement has since been replaced by the Economic Partnership Agreement, whose negotiations are on-going. The textile and clothing products covers HS chapters 50 to 63 and HS chapter 64 is footwear, which is not produced in Botswana.

[2] Botswana negotiated Interim EPA under the SADC configuration together with Angola, Lesotho, Namibia, Mozambique, Swaziland and South Africa. Botswana, Lesotho, Mozambique and Swaziland signed the Interim EPA in June 2009, while Angola, Namibia and South Africa did not sign citing some concerns on certain provisions of the Agreement. The second phase of the negotiations is on-going.

[3] Botswana; African Economic Outlook 2004/2005, www.oecd.org/dev/aeo

(TCF)[4] imports into the Botswana and the SACU area market have escalated rapidly and partly due to the liberalisation of trade at the end of the Uruguay (figure 2).

Asian countries have long developed a comparative advantage in producing TCF products. These countries offer lower labour costs, larger and more efficient productions, lower cost transportation and a superior transport and telecommunications infrastructure. The liberalization of imports in the wake of the MFA phase-out led major companies to close down businesses in Botswana, some relocating to their home countries in Asia and leaving large number of workers unemployed. The other critical factor in shaping TC exports is the elimination of the SACU wide Duty Credit Certificate Scheme (DCCS). Under the DCCS, firms earned duty credit certificates (DCC) whenever they exported products outside the SACU market. The certificates would then allow firms to import certain prescribed TC products. The DCCS was then replaced by the Textile and Clothing Industry Development Programme (TCIDP), which stopped the DCC from being traded amongst importers in the secondary market. This however negatively affected TC firms in Botswana which were using these certificates as a source of revenue. AGOA provisions are also set to expire in September 2015. However there is a bill before congress that makes provision for an extension of the current preference to the end of 2019 (and beyond).

The main objective of this paper is to review the performance of the TC sector in Botswana and consider various incentive schemes aimed at developing the sector. The paper is organized as follows; the first section serves as introduction. Section 2 discusses the background on the history of international trade in textile with discussions on MFA, ATC, AGOA DCCS, TCIDP and new South African support programmes to the TC sector. Section 3 analyses the SACU trade regime for TC. In section 4 and 5, we discuss the history and current status of the TC sector in Botswana, respectively. Conclusions and policy recommendations are presented in section 6.

2. The History of International Trade in Textile and Clothing

2.1 Multi-Fibre Agreement (MFA) and the Agreement on Textiles and Clothing (ATC)

The Multi-Fibre Agreement was set up in 1974 as a set of formal quota arrangement and restrictions governing the TC trade between developing and developed countries (see Annex 1 for the history of international trade in TC). The MFA established quotas on different categories of TC imports primarily to the EU and the US. MFA quota restrictions were placed on exports from a number of low-cost producing countries by the US and EU members to try to limit imports to protect their own industries (Morris and Sedowski, 2006). These restrictions targeted mainly the TC exports from

[4] According to Central Statistics Office, the import data includes footwear whereas the export data does not.

some larger developing countries such as Pakistan, India and the world's clothing manufacturing powerhouse, China. The quota system, which had been in force for nearly thirty years, resulted in the global spreading of TC production by restricting imports from countries that would have had a larger volume of exports were not exports constrained by their quota allocations (Appelbaum, 2004).

The MFA was phased-out as part of the Uruguay Round of multilateral trade negotiations in 1994 which led to the creation of the WTO. The MFA conflicted with the General Agreement on Tariffs and Trade (GATT)'s preference for the use of customs tariffs instead of quantitative measures to restrict trade. The Agreement on Textiles and Clothing (ATC) replaced the MFA in 1995. Keenan et al (2004) argued that producers in Sub-Saharan African countries were likely to see their industries decimated as a result of the integration of the TC industries into the GATT. The ATC was agreed to ensure that the TC industry is aligned to the WTO principles and was one of the single greatest benefits of the Uruguay Round to countries like China and India. Nordas (2004) noted that the MFA was viewed as one of the most comprehensive and discriminatory instruments of the international trade regime[5].

The phasing–out of the ATC and the accession of China to the WTO meant that TC production shifted dramatically towards China and India. Francois and Spinanger (2004) argue that the MFA and ATC have, in effect, been serving as a negative preference system helping other developing countries at the expense of the two potentially dominant suppliers, China and India. The shift in the TC trade meant that the smaller developing countries lost market share for TC products. For example, EU imports from China increased by 164 percent in volume in 2002 in those products categories where quotas were eliminated[6]. In the case of South Africa, Botswana's major trading partner in the region, which did not apply MFA quotas but made TC liberalisation bindings during the Uruguay Round. As a result TC imports from China surged to 89% of total TC imports in 2001. It should be noted that historically TC imports into South Africa originated from a wide range of countries including Taiwan, South Korea and Europe[7].

It is against this background that a textile specific special safeguard was negotiated with China as part of its accession to the WTO. The special safeguard allowed any WTO member to re-impose quotas on Chinese TC products for one year between 2005-2008 if the Chinese imports were deemed to be disrupting domestic markets and harming home country producers. South African government in August 2006 invoked the special safeguard measures

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[5] The ATC was set out as a transitional process for the removal of quotas and it took over 10 years to fully integrate the textile and clothing sector into the GATT

[6] Sector Futures; Textiles and clothing: A dying industry-or not?; European Monitoring Centre on Change

[7] http://www.texfed.co.za/main.htm

and imposed import quotas on TC from China. Many other countries, including US, also invoked this special safeguard at the time. The motive behind quotas was that it would give the domestic industry enough time to restructure and improve competitiveness and boost production and employment. However, restructuring and the increased competitiveness needed to compete with China did not materialise but quotas did succeed in temporarily reducing imports from China, while the South African total TC imports did not decrease as retailers sourced imports from other low cost Asian producers such as Malaysia, Vietnam and Bangladesh (Biancuana, 2009).

2.2 Preferential Trade Access

This section reviews the existing trade preference agreements which have had an impact on the Botswana TC export sector. The African Growth and Opportunity Act (AGOA) and the Economic Partnership Agreement (EPA) are discussed below. Both of these agreements, have at different times been instrumental in driving the exports of TC products in Botswana

2.2.1 The African Growth and Opportunity Act (AGOA)

AGOA is a US initiated unilateral preference arrangement that seeks to assist the economies of the Sub-Saharan African (SSA) countries and improve economic relations with US. The legislation was signed by the then US President Bill Clinton into law in May 2000 as part of the Trade and Development Act of 2000. The legislation was enacted after years of debate and negotiations in the US about whether "aid or trade" should be used to assist the low-income countries in Africa. AGOA program reinforced the US trade agenda and economic cooperation on Africa. A high level dialogue on bilateral trade and investment policy issues was established through the US-SSA Trade and Economic Forum. AGOA was implemented in 2001 and offered designated SSA countries liberal market access to the US by giving them preferential treatment in sourcing raw materials for duty free exports into the US market and as well as US credit and technical expertise. AGOA ensured market access into the US market for a list of approximately 6,500 product lines from Africa.

For a product to be eligible, it should be on the US product positive list as well as wholly produced in a beneficiary SSA country. Shapouri and Trueblood (2003), argue that in general, AGOA is similar to other preferential market access programs and may create a policy-induced "comparative advantage" for SSA exports. However, the act created uncertainties as it gave the President of the U.S. the right to decide on which SSA countries should be eligible for AGOA on annual basis. The US President evaluates the SSA countries and determines which country

should remain eligible and currently there are 39 AGOA-eligible countries and of which 27 have eligibility for textile and apparel benefits[8].

AGOA was first amended in 2002 with preferential access for imports from beneficiary SSA countries being substantially expanded. This amendment clarified and expanded the trade opportunities for SSA countries under AGOA and encouraged more investment in the region. The US government continued to modify certain provisions of the AGOA by signing the AGOA Acceleration Act of 2004, also known as AGOA III. AGOA III extended the preferential access for imports from beneficiary SSA countries from 2008 to 2015 and extended third country fabric provisions for 3 years from 2004 to 2007[9]. This extension ensured that the SSA countries continue to enjoy the U.S market access because initially AGOA was supposed to cover a period of 8 years from 2000 to 2008. The African Investment Incentive Act of 2006 (referred to as AGOA IV) was signed in 2006, further amended some portions of AGOA. The Act extended the third country fabric provision for an additional 5 years, from 2007 to 2012.

The US Senator Bill McDermott, a leading sponsor of US Trade Bills, prepared a bill known as the "New Partnership for Trade and Development Act of 2009"or AGOA V. The proposed legislation aimed at amending AGOA IV and focused into continuing the US trade policy and development agenda to SSA countries for several more years. The objectives of AGOA V included amongst others; harmonization and broadening of US preferential trade policy by extending certain benefits to other beneficiaries; and simplifying and implementing a single Rule of Origin (RoO), review current statutory exclusions (for example on the TC) and extending the programmes timeframe;

The proposed amendments included the following;

- The bill makes provision to extend AGOA from 2015 to the end of 2019 (and beyond) provided that there is a successful end of the Doha Development Agenda Round of Negotiations before the end of 2015;
- The bill makes provision that after 2019, the Act would be renewed after every 5 years, for Lesser Developed Countries (LDC)

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[8] To be eligible for AGOA preferences, countries must meet certain eligibility criteria, for e.g. countries must not engage in activities that undermine the U.S. national security or foreign policy interests. If the President determines that an eligible SSA country is not making continual progress in meeting the requirements outline in the Act, the President shall terminate the designation of the country; a latest example is that of Madagascar, Guinea and Niger. Countries eligible for AGOA benefits are; Angola; Benin; Botswana; Burkina Faso; Burundi; Cameroon; Cape Verde; Chad; Comoros; Republic of Congo; Democratic Republic of Congo; Djibouti; Ethiopia; Gabon; The Gambia; Ghana; Guinea-Bissau; Kenya; Lesotho; Liberia; Malawi; Mali; Mauritania; Mauritius; Mozambique; Namibia; Nigeria; Rwanda; Sao Tome and Principe; Senegal; Seychelles; Sierra Leone; South Africa; Swaziland; Tanzania; Togo; Uganda and Zambia.

[9] Less-developed beneficiary SSA countries may use non-US fabric and yarn in apparel wholly assembled in their countries and still qualify for duty and quota free treatment.

- To extend the third country provision by 3 years, from 2012 to the end of 2015 and;
- To abolish any quotas on goods shipped from AGOA-eligible countries.

2.2.1.1 AGOA's 'Wearing Apparel' Rules of Origin (RoO)

AGOA provides SSA beneficiary countries with duty-free and quota-free access to the US market for apparel subject to specific RoO and administrative requirements. Textile and apparel imports to the US must meet AGOA's RoO to avoid Africa becoming an export platform for production originating from elsewhere (Lynch, 2010). The purpose of RoO is to determine where the product is made. RoO are economically justified in order to prevent trade deflection or the re-export of foreign apparel purchased at a lower price while pretending it is produced in that particular country (Portugal-Perez, 2008). AGOA eligibility does not automatically imply eligibility for the wearing apparel provisions. All AGOA eligible SSA countries must satisfy the 'Wearing Apparel' provisions before they can export apparel (and other certain textile items) to the US under AGOA. This includes taking necessary steps to establish effective product visa systems to the satisfaction of the US authorities to prevent illegal transshipment[10]. According to the RoO, apparel made in qualifying SSA countries from US fabric yarn and thread is provided with duty-free and quota free access to the US market without limitations[11]. Botswana, like other lesser developed countries enjoy AGOA's third country provision which allows firms to use fabric from any origin in the production of garments exported under AGOA. This was a key provision that facilitated the development of the TC sector in several Southern African countries including Botswana.

However, Mattoo, *et al* (2002) argued that although AGOA has been a significant factor in the growth of the TC sector in SSA, the mandatory use of the US and regional fabrics as inputs raises SSA production costs and hence reduces the benefit of the preferences. US apparel imports made in qualifying SSA countries from domestically produced fabric and yarns, or from fabrics and yarns produced in AGOA beneficiary countries in SSA are subject to a cap of 3.5 percent of overall U.S imports until 2012, unless otherwise extended. The current RoO contributes to the production costs and hence there is a need for a review so as to increase SSA's exports to the US. Portugal-Perez (2008) found that the relaxation of the RoO, by allowing the use of fabric of any origin, will increase the apparel exports to the

[10] Transshipment is when goods which are manufactured in one country and are shipped to another country, relabeled, and shipped to the U.S. having claimed to originate from the second country. According to a report on AGOA for Technical Committee on Market Access, 2 March 2010, Botswana Unified Revenue Service (BURS) recorded high levels of transshipments where 4 out of 7 companies that exported to the US were faced with serious charges of transshipments (P100 000)

[11] Rules of origin are a key factor to determine whether trade agreements or preferences have met their objectives.

US by about 300 percent for the top 7 beneficiaries of AGOA's special regime and broadened the range of apparel exported by those countries.

The statistical evidence reveals that AGOA has had a sizeable but in many cases unsustainable impact on African textile and apparel trade with the US since its inception. Table 1 shows US textile and apparel imports of selected AGOA-eligible countries, from 2001 to June 2010. Overall total US textile and apparel imports have increased significantly, although from a very low base of 355 million dollars in 2001 to 1.6 billion dollars in 2004. Between 2005 and 2010 textile and apparel imports have fluctuated. There was a decrease in imports in 2005 to 1.4 billion dollars as the effects of the MFA began to be felt and since then the textile and apparel imports have been gradually declining to a low 914 million dollars in 2009. However the sharp decline in 2009 may be attributed to the 2008/09 economic crisis. There has been a sizeable impact on textile and apparel trade in countries such Lesotho, Madagascar, Mauritius, Kenya, Swaziland, Botswana and to a lesser extent Ghana, Ethiopia, Malawi, Uganda and Tanzania.

Table 1: US Textile and Apparel Imports of selected AGOA-Eligible Countries (In 1,000 US$)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD*
Botswana	-	3,708	6,344	20,118	30,043	27,687	31,333	15,802	12,361	4,778
Cape Verde	-	-	2,452	2,902	2,115	85	-	-	-	-
Ethiopia	163	1,297	1,684	3,327	3,509	4,872	4,560	9,357	6,619	3,312
Ghana	-	324	4,254	7,099	4,986	8,807	7,517	766	275	596
Kenya	51,684	121,213	1,762,224	271,480	266,615	258,905	244,778	246,154	194,834	79,447
Lesotho	129,242	317,660	372,614	446,494	388,344	384,452	379,464	338,686	276,885	106,109
Madagascar	92,048	75,415	186,253	314,185	272,962	229,499	281,432	277,036	209,943	-
Malawi	4,696	11,402	22,388	25,485	22,450	18,187	19,824	12,671	9,015	3,619
Mauritius	38,874	106,498	134,958	147,798	146,811	145,776	112,346	97,016	98,622	48,251
Mozambique	-	187	2,179	1,805	2,512	658	161	-	-	-
Namibia	-	1,539	32,131	75,906	53,058	33,010	28,576	-	-	-
South Africa	30,487	85,261	126,885	114,616	61,621	41,978	21,335	15,955	10,114	2,200
Swaziland	8,195	73,719	126,841	175,641	159,175	134,486	134,533	124,412	94,164	39,280
Tanzania	-	124	851	2,520	2,811	2,994	2,810	1,501	996	245
Uganda	-	-	1,414	4,010	4,840	1,253	1,134	403	138	57
Total	**355,389**	**798,446**	**1,197,472**	**1,613,408**	**1,421,852**	**1,292,680**	**1,269,803**	**1,139,761**	**914,001**	**287,929**

NB: * Denotes Year-to-Date values from January to June 2010

These figures are that of AGOA excluding Generalized System of Preferences.
Source: Paez, et al (2010)

Although AGOA has helped increase exports over time it is far from evident that it has helped to establish a viable, sustainable and competitive export sector in SSA (Paez, *et al*, 2010). Furthermore, AGOA is a unilateral arrangement, that is reviewed annually hence it is difficult for Botswana to promote long term strategies aimed at harnessing its potential of improved trade, investment and employment opportunities.

2.2.2 Economic Partnership Agreement (EPA)

Until 2008 the trade relations between SACU and EU were governed by the Cotonou Agreement under which the SACU countries enjoyed a preferential market access to the EU market[12]. Consequently, the TC exports from SACU countries entered the EU market duty and quota free. The Cotonou Agreement has since been replaced by the Interim EPA which was initialed in 2008. The EPA has the most important element in the TC trade as the RoO has seen fundamental changes as compared to the trade under the Cotonou Agreement. While the Cotonou Agreement required "double transformation", the EPA has allowed negotiations for "single stage transformation" for local processing. Double transformation required two distinct stages of local processing, where garment manufacturers were expected to make fabric and garment and for fabric exporters it required spinning of yarn and weaving of fabric locally. Single stage transformation would require a garment exporter to source fabric from anywhere and woven fabric could be produced from imported yarn. These single-stage transformations in RoO were beneficial to Lesotho, Swaziland and Botswana in the SACU region, because they have been strong garment producing countries (Gherzi, 2009). Botswana's major trading partner South Africa, on the other hand advocates for a "double transformation" rule in SACU. South Africa's rationale for the double transformation rule is that it would encourage regional sourcing and deepen integration of the regional TC industries (Flatters, 2002 and Grynberg, 2005).

2.3 SACU Incentive: The Duty Credit Certificate Scheme (DCCS)

From a historical perspective the TC industries in the SACU region have always been given special support by their governments. For example, in the 1980s, the South African government argued that its TC industries suffered from an anti-export bias caused by high import duties on raw material, which made it difficult for their manufacturers to compete internationally. To correct this bias, the South African government introduced the Structural Adjustment Programme (SAP) in the 1980s to stimulate the TC industry growth. The SAP offered tradable duty-free import permits on the basis of export success as a means of reducing input costs (Reid, 1999). With the SAP, the TC industry earned import certificates based on export performance, which they could then use to counter for the anti-export bias present in the high

[12] Trade relations between RSA and the EU are governed by the Provisions of the Trade and Development Cooperation Agreement (TDCA)

import duty structure of imported inputs (Breitenbach, 2008). Reid (1999) noted that according to the Department of Trade and Industry (DTI), South Africa, the unintentional impact of the SAP was to induce an unstructured liberalization of the domestic market, where for example in 1993 the official tariffs for TC averaged 50% and 142%, respectively and actual tariffs paid averaged only 14% for textiles and 8% for clothing.

The DTI then introduced the General Export Incentive Scheme (GEIS) in 1990 to encourage exporters of TC products to offset the price disadvantages prevailing in the international market which may have been caused by the anti-export bias. The GEIS provided tax free subsidies to exporters based on the value of exports, the degree of processing of the export product, the extent of local content embodied in exports (Breitenbach, 2008). While the SAP rewarded value added, the GEIS focused on the level of beneficiation. The higher the level of beneficiation, the higher the level of incentive paid (Breitenbach, 2008). Although both the export incentive schemes encouraged exporters of TC products, they had their shortcomings. SAP proved to be an ill considered and a highly disruptive export incentive that ultimately led to the destruction of certain sectors of the TC industry (Breitenbach, 2008). This destruction was caused by the selling of textile products from the Far East into South Africa using fraudulent invoices. As a result of inadequate customs control, so the government had to replace the programme. On the other hand the GEIS was open to abuse by exporters and proved to be a considerable burden on the fiscus and it was discontinued as it also contravened the international trade agreements that had previously excluded South Africa due to international sanctions.

The DCCS was introduced in 1993 as a bridging measure after the SAP was stopped and it came into effect after a prolonged period of consultation with the TC industries. The objectives of the DCCS were to enable the TC industries within the SACU region to attain global competitiveness and provide sustainable employment within the region. The DCCS was administered by South Africa's International Trade Administration Commission (ITAC). DCCS was an export incentive for SACU's TC companies, designed to encourage outward orientation of manufacturers and as a policy it has played a major role in the development of the TC industries in the SACU region since its introduction.

The DCCS operated on the basis of TC companies earning import duty credits certificates on certain prescribed exports of TC products to markets outside the SACU region (see table 2 for the prescribed exports qualifying for the DCCS). The decision to award a certificate was based on proven exports and the certificates were then used to claim a remission of duties on imports. A duty credit would then permit the qualifying participating firms, credit this against the value of duties payable

when importing certain prescribed TC products[13]. The value of the certificate was calculated as a percentage of the export sales value, where the export sales were reduced if the full invoice have not been repatriated (ITAC, 2004)[14]. Table 3 shows the products that can be imported when a firm utilizes a Duty Credit Certificate (DCC) based on exports. Alternatively the rebates earned could be sold to any other importer of textiles or clothing products (Barnes, 2005). Major successes that can be attributed to the DCCS include the following, though the list is not exhaustive;

- it facilitated for the growth of TC industries in the SACU region and also generated employment;
- it exposed the regional industries to the demanding international markets hence enhanced knowledge and skills within the industries and associated multipliers;
- it created a greater profile for the SACU TC industries by putting the industries on the global trading map; and
- it prevented the total collapse of TC industries especially in the BLNS (Botswana, Lesotho, Namibia, and Swaziland) countries following the termination of the MFA.

The DCCS also faced several important implementation challenges which included;

- The certificate earned could be sold in the 'secondary' market and this reduced the effective rate of the incentive. The credits were sold to retailers who have paid as much as 30 - 40% discount, which they then use to import garments, thus reducing demand for domestically produced apparel and ultimately hurting domestically oriented clothing firms (Barnes, 2005).
- DCCS were perceived as providing preferences to clothing exporters as opposed to textile counterparts and as such the resale of DCCS was abused to undercut local textile producers
- The BLNS countries depended on the South African market for finding the outlets for the certificates because most DCCS users were in South Africa

[13] A qualifying participant under the DCCS could be a company, a close corporation, a partnership or a sole proprietor. A division of a company may participate in the DCCS, provided that it trades as a separate business entity and has its own financial statements. In the case of a division of a company participating in the DCCS, the chief executive officer or the managing director of the parent company must certify such applications, by co-signing all documents.

[14] As such the export sales value in rand may be more than the amount repatriated in Rand and this means that currency fluctuations after invoicing will not influence the value of the certificate. Export sales value means the free carrier value of export sales qualifying in terms of the DCCS. It does not include the following;
Freight and insurance costs in respect of the transport and insurance of qualifying products outside the SACU; and
Any expenditure or costs of whatever nature incurred by the participant or associated company in respect of any activity performed, or to be performed.

and furthermore the DCCS was gazetted by the DTI in South Africa and not at the SACU secretariat.

The DCCS ended on the 31st March 2005, and was replaced by an interim Textile and Clothing Industry Development Programme (TCIDP), which was introduced with effect from the 1st April 2005 and was supposed to be valid until the 31st March 2009 but was subsequently extended till the 31st March 2010. The introduction of the TCIDP in 2005 coincided with the phasing out of the MFA, resulting in elimination of quotas imposed on import of textile and clothing by EU and US (Gherzi, 2009). The TCIDP offered duty credits based on the exportation of textile and clothing products just like the DCCS, but the only difference was that the certificate was not tradable into the 'secondary' market as was the case with the DCCS. The TCIDP also focused on four product categories namely, clothing, household textiles, fabrics and yarn. Table 4 shows the level of benefit for each category in percentage terms. The level of benefit depended on the export product and was fixed for the duration of the interim TCIDP. The products on which credits were earned are listed in table 5.

TCIDP faced constraints and challenges in its implementation. Gherzi, 2009 identified the following;

- Policy inconsistency

The inconsistency reflected in the scheme's prolonged suspension and uncertain future caused considerable anxiety and manufactures failed to plan long term and likewise they could not invest in training the workers to attain desired skill levels because they didn't know what was going to happen to the scheme

- Tradability

The DCCS had full tradability, the certificate holders would sell them to retailers who would use them to reduce the cost of imports and cut prices in the local market. This was seen to be detrimental to the local textile and clothing industry. The tradability was then completely withdrawn and certificates were only utilized by exporters or actual users.

- WTO Compliance

Policy makers raised concerns about the lack of compliance of the scheme with the WTO's Subsidies and Countervailing Measures (SCM). It was believed that the scheme was an export subsidy which is prohibited under the SCM, with the exception of LDCs which enjoy a special and differential treatment.

3. SACU Trade Regime; Textile and clothing

An analysis of the SACU Tariff Structure shows that textile and clothing products attract higher tariffs, indicating a high level of protection on the sector. Table 6 shows sectoral distribution of SACU MFN ad valorem tariffs. The highest applied tariff is 40 percent and most tariff lines attract duties between 15 percent and 40 percent (Table 6). These higher tariffs can be attributed to South Africa's reluctance in reducing tariffs in this sector (BIDPA, 2008). Table 6 shows that the TC sector has 979 ad valorem tariff lines with 132 duty free, 64 lines attracting duties between 5 and 10 percent and 783 attracting duties equal to or greater than 15 percent.

Table 6: Sectoral Distribution of SACU MFN ad valorem Tariffs, 2007

HS Chapter	Description	Duty Free	0<=5	5<=10	10<=15	15<=20	20<=25	25<=30	30<=50	>50	Total Lines	% of Total Lines
01-05	Animal & Animal Products	166	1	-	-	4	17	2	-	-	190	2.94
06-15	Vegetable Products	163	31	74	30	44	5	4	1	-	352	5.44
16-24	Food Products	70	18	14	4	46	50	9	10	1	222	3.43
25-27	Mineral Products	146	5	10	9	4	-	-	-	-	174	2.69
28-38	Chemicals & Allied Industries	808	7	100	48	32	2	-	-	-	997	15.41
39-40	Plastics/Rubbers	189	3	59	149	32	4	1	3		440	6.80
41-43	Raw Hides, Skins, Leather &Furs	40		19	7	1	-	19	-	-	86	1.33
44-49	Wood & Wood Products	169	3	36	60	18	-	5	-	-	291	4.50
50-63	Textiles	132	39	25	137	60	291	79	216		979	15.13
64-67	Footwear/Headgear	14	2	-	3	18	5	32	-	-	74	1.14
68-71	Stone/Glass	130	14	34	40	23	-	3	-	-	244	3.77
72-83	Metals	470	47	102	43	79	1	6	-	-	748	11.56
84-85	Machinery/Electrical	734	39	80	90	66	14	1		-	1024	15.83
86-89	Transportation	122	4	21	8	46	-	3	15	-	219	3.38
90-98	Miscellaneous	333		1	41	45		10	-	-	430	6.65
	Total	3686	213	575	669	518	389	174	245	1	6470	100

Source: BIDPA, 2008

The TC sector is also viewed as sensitive by all SACU members including Botswana and hence tariffs are used to protect this sector, as it contributes to the livelihood of the society especially to low income groups (Table 7). Table 7 shows a list of Botswana's sensitive products and special products. The table shows that Chapters 61, 62, 63 and 64 attract a total of 133 (about 60 percent) tariff lines out of 189 tariff lines which are viewed as sensitive; this support the findings found earlier on that the TC sector is highly protected.

Table 7: Botswana's Sensitive Products and Special Products – a Summary

Chapter	Description	Number of Tariff lines	% of Total Tariff lines
2	Meat and edible Meat Offal	18	0.270
4	Dairy Products and Honey	2	0.030
7	Edible Vegetables and Certain Roots and Tubers	1	0.015
11	Milling Products, Malt and Starch	1	0.015
16	Meat, Fish and Seafood Preparations	5	0.075
20	Vegetable, Fruit, Nut etc. Preparations	8	0.120
34	Soaps, Lubricants, Waxes, Candles and Modeling Pastes	2	0.030
48	Paper and Paperboard, Articles of Pulp Paper and Board	16	0.240
49	Printed Books, Newspapers, pictures etc	2	0.030
61	Articles of Apparel Accessories Knitted or Crochet	44	0.660
62	Articles of Apparel Accessories Not Knitted or Crochet	48	0.720
63	Other Made Textile Articles, Sets, Worn Clothing etc	14	0.210
64	Footwear, Gaiter and the Like	7	0.105
70	Glass and Glassware	11	0.165
71	Pearls, Precious Stones, Metal, Coins etc	10	0.150
TOTAL		**189**	**2.835**

Source: BIDPA, 2008

Table 8 provides a summary for SACU MFN Tariffs applied on textile, clothing and footwear imported inputs. The table shows that Botswana's imported inputs identified accounts for a total of 707 tariff lines. Of the identified imported textile inputs 696 lines (98.4 percent) attract ad valorem duties and the remaining 11 lines (1.6 percent) attract non-ad valorem tariffs, mostly mixed, which attracts 90.9 percent of the remaining 11 lines. This data shows that textile and footwear inputs just like TC products are highly protected attracting duties in the range of 5 percent to 30 percent (about 581 lines, which is about 82.2 percent of total tariff lines on inputs) and only 126 lines (17.8 percent) of total tariff lines are duty free. From the table it can be shown that all imported silk inputs are duty free. Imported cotton inputs attracts 4 duty free lines and 128 lines attract duties equal to or greater than 10 (Table 8). Given that this sector is among the important sectors to Botswana's economic growth, these high tariffs on these inputs will negatively impact the expected economic growth and can make the sector uncompetitive in the global markets. The firms are then forced to source inputs from South Africa, which are not necessarily the cheapest.

Table 8: Distribution of SACU MFN Tariffs on Botswana's Textile and Footwear Inputs

HS Code	Description	Total Number of Lines									
		Duty free	0<=5	5<=10	10<=15	15<=20	20<=25	25<=30	Specific	Mixed	Total
50	Silk	10	-	-	-	-	-	-	-	-	10
51	Wool, animal hair, horsehair yarn and fabric thereof	27	2	2	10	-	11	-	-	-	52
52	Cotton	4	-	-	51	-	77	-	1	-	133
53	Vegetable textile fibres nes, paper yarn, woven fabric	25	-	-	-	-	4	-	-	-	29
54	Manmade filaments	12	3	2	22	1	33	-	-	-	73
55	Manmade staple fibres	15	-	5	29	-	68	-	-	-	117
56	Wadding, felt, nonwovens, yarns, twine, cordage, etc	1	1	13	12	15	-	-	-	-	42
57	Carpets and other textile floor coverings	0	3	-	-	-	-	20	-	-	23
58	Special woven or tufted fabric, lace, tapestry etc	6	4	3	-	3	32	2	-	-	50
59	Impregnated, coated or laminated textile fabric	16	10	1	12	13	9	1	-	-	62
60	Knitted or crocheted fabric	-	16	-	-	-	44	-	-	-	60
64	Footwear, gaiters and the like, parts thereof	10	-	-	1	10	-	25	-	10	56
Total		126	39	26	137	42	278	48	1	10	707

Source: SACU Tariff Book (2007); Authors' calculations

While the SACU tariff provides protection for TC exports, domestic producers face fierce external competition. Moreover, the sector's competitiveness is also impeded by high tariffs on imported textile inputs. More specifically, the firms will generally be left with no choice but to source inputs from South Africa, which is not necessarily the cheapest supplier of these products. This therefore signals the negative implication of the current tariff structure on Botswana's industrial development.

4. History of the Textile and Clothing Industry in Botswana

Historically, the TC sector in Botswana has been linked to regional and international trade agreements that served to attract investors. The sector exists solely because of regional and international trade agreements and not because the sector has a comparative or competitive advantage in the TC production. The TC sector underwent a major restructuring process in the late 1970s and early 1980s driven by the Zimbabwean

firms which relocated their businesses from Zimbabwe to Francistown (Salm, et al, 2004). These firms relocated to Botswana in order to access the SACU market. Their relocation led to the growth of the industry and this has been shown by the fact that by the end of 1980 about sixty percent of foreign owned TC industries in Botswana were in the hands of Zimbabweans and most of them were exporting the majority of their production into Zimbabwe (Salm, et al, 2004). Botswana and Zimbabwe have a preferential bilateral trade agreement that dates back to the 1956 which allows duty free trade of locally manufactured goods between the two countries.

4.1 Financial Assistance Policy (FAP)

In 1982 the Botswana government introduced the Financial Assistance Policy (FAP) aimed at providing incentives for prospective and existing investors. This also contributed to the growth of the industry by providing direct financial assistance in the form of grants to private sector firms. Table 9 shows the FAP grants approved for the TC production, the location, projected employment and state of ownership. The majority of the firms assisted were from Selebi Phikwe and this was done at that time to encourage economic diversification in order to sustain the town in case the Bamangwato Copper Limited mine ceased to operate.

The FAP aimed at creating employment opportunities and encouraging investment in a range of economic activities by providing incentives and subsidies. The specific objectives of the FAP among others; were also to produce goods for export or to substitute for imports and diversify the economy to lessen its dependence on large scale mining, beef exports and growth of the public sector. The incentives brought about by the FAP resulted in the competitiveness of the TC industry. These included among others FAP labour grant incentives on wages paid to unskilled or semiskilled workers, tax holidays and a training scheme to improve the skill levels of the citizens.

After reviewing the recommendations of the fourth evaluation report the government decided to phase out the FAP in 2000. The evaluation report found that there was fraud, abuse and inadequate monitoring and administration capacities in the FAP especially for small-scale activities[15]. FAP was then replaced by the Citizen Entrepreneurial Development Agency (CEDA), which was designed to increase the citizen economic empowerment by providing training, mentoring, monitoring and loans (instead of the previous FAP grants) and this led to the decline in employment and exports in the TC sector. Some firms closed down businesses and others relocated due to the phasing-out of the FAP subsidies. Ever since the phasing out of the FAP, the TC sector in Botswana has faced many challenges. It was only in 2002 that the sector started to recover after Botswana was granted the LDC preference under AGOA by the US.

[15] The evaluation report found that 75% of the small scale FAP projects failed to survive past the period of assistance. The corresponding rates for medium and large scale projects were 45% and 35%, respectively.

Table 9: FAP Textile Approved Projects

Name	Start	Location	Projected Employment	Ownership
Textile Garments (Sportsline)	1991	S/Phikwe	830	NC
Novel Group of Companies	1995	S/Phikwe	1,220	NC
Top Knitting Botswana	1997	Gaborone	1,560	NC
Casual wear	1995	S/Phikwe	1,200	NC
Garnet Promotions	1997	S/Phikwe	1,514	NC
Trend Setters	1991	S/Phikwe	740	NC
Eternal Botswana	1995	S/Phikwe	1,000	NC
Beach Club Clothing (Botswana)	1995	S/Phikwe	1,200	NC
Tex	1993	S/Phikwe	927	NC
BonWeath	1994	Gaborone	960	NC
Caratex	1999	Gaborone	1,175	JV
Capital Garments	1995	S/Phikwe	738	NC
Sino Botswana	1989	Lobatse	407	NC
Fashion Firstar	1990	Gaborone	386	NC
Ashford Textiles	1989	Pilane	455	NC
Aglo Garments	1991	S/Phikwe	430	NC
Northern Knitwear	1995	S/Phikwe	565	NC
Overseas Knitting Factory	1995	S/Phikwe	633	NC
Anvil Garments	1996	S/Phikwe	1,021	JV
Zheng Ming Knitwear	1997	Ramotswa	620	NC
Backpacker Products	1993	S/Phikwe	335	JV
Liontex	1997	Mogoditshane	442	NC
CISCO	1996	S/Phikwe	282	NC
Rotex Spinners	1997	S/Phikwe	392	NC
		Total	**19,032**	

Source: FAP Fourth Evaluation Report, 2000 and Authors' calculations **NB:** NC= National Citizen and JV= Citizens and foreigners

5. Current State of the Textile and Clothing Sector in Botswana

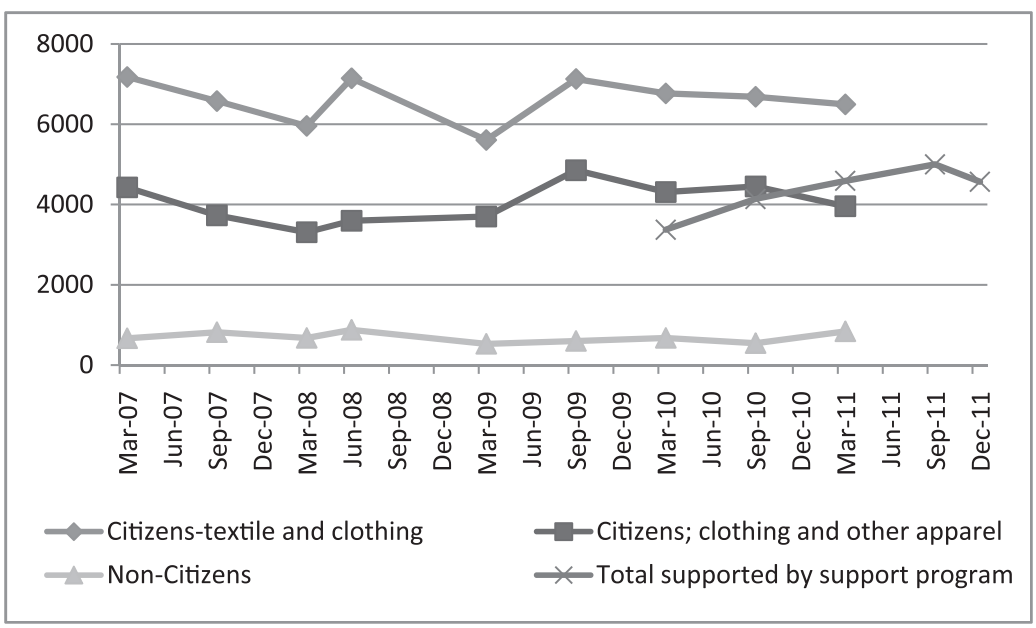
The 2007 Botswana Export Development and Investment Authority (BEDIA) Botswana Manufacture's Directory indicated that there were 60 TC firms registered in 2007, which manufactured a variety of TC products[16]. However this was before the

[16] 2007, is the latest year for which the data was published. The firms manufactured a wide range of products such as trousers, suits, wedding garments, blouses, track suits, graduation gowns, golf shirts, t-shirts, school wear, knitted and crocheted fabric, sweaters, jerseys (knit to shape), denim jeans, corporate wear, protective wear, cotton face cloths and kitchen towels, bedding, socks and scarves.

economic meltdown which occurred in the wake of the 2008/2009 financial crisis and there are no official figures on the number of firms that remained in operation. Based on 2009/10 data there were a total 31 textile firms that had received concessional tax rates from the MFDP[17]. The TC sector has failed to grow and take advantage of existing trade preferences because it is faced with many challenges, which include the following;

- low production capacity
- little working knowledge of investors in the export business about the complexity of international marketing, poor infrastructure and high transaction costs
- non availability of training facilities locally for providing skills for the sector
- influx of cheap imports that undermine the sector
- limited research and unavailability of accurate data
- limited labour and managerial skills
- high interest rates and lack of sustainable financing; and
- high costs of sourcing raw materials.

Figure 1: Textile and Clothing Employment Citizens and Non-Citizens, 2007 to 2011



Source: Central Statistics Office, (various)

The justification that was offered for the support program for the textile and clothing sector was that thousands of workers has lost their jobs following the onset of the global economic crisis in 2008/09. In December 2009 Caratex Botswana which had employed more than 5000 workers and was by far the biggest employer in the sector

[17] Pers com MFDP May 2012.

shut down[18]. It was this crisis that provided the justification for the government's support program for the industry.

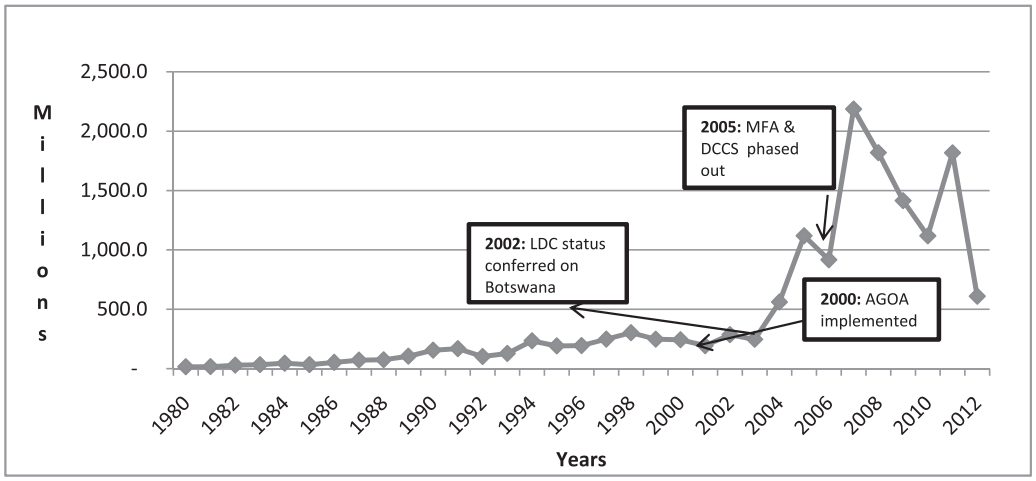
Figure 1 above shows the number of employees in the sector from March 2007 to March 2011 based on official CSO data. It also shows the total number of workers supported under the Department of Industrial Affairs (DIA) program for the textile and clothing sector. In June 2008, prior to the commencement of the international economic crisis, there were 7,142 workers employed in the sectors. By March 2009 this had decreased to 5,606. **However by September of 2009 employment had recovered to 7,125 which was prior to the commencement of the government's support programme for the industry. Employment in the sector fell after the commencement of the support program and by March 2011, the last year for which such employment data exists, employment stood at 6,493, which is 8% below the pre-support programme employment level.** In the meantime the support for the industry grew until December 2011 when it reached coverage of 5,707 workers.

In Figure 2, we examine the trends in Botswana's textile exports during the period 1980 to 2012. Evidently, the TC exports have consistently grown from 1980 to 2007, but from 2007 till 2010 a reversal was observed and in 2011 there was an improvement in exports and in 2012, there was a huge decrease and whether the decrease is linked to the stoppage of the Special Support Programme is not clear. The TC exports increased gradually after 2002, that is after Botswana was granted the "lesser developed beneficiary" SSA country by AGOA implying that Botswana could now export TC products using third country materials duty free to the US. The phasing out of the MFA combined with the ending of the DCCS also resulted in slightly decreased exports. The exports then peaked after the introduction of the TCIDP which replaced the DCCS, which offered duty credits just like the DCCS but was not transferable.

Figure 3 shows trends in TCF imports from 1986 to 2012. Imports increased substantially after 2000 with the increasing competitiveness of the Chinese imports. However, the cheaper imports from China stimulated trade in the informal sector as consumers benefited from lower prices.

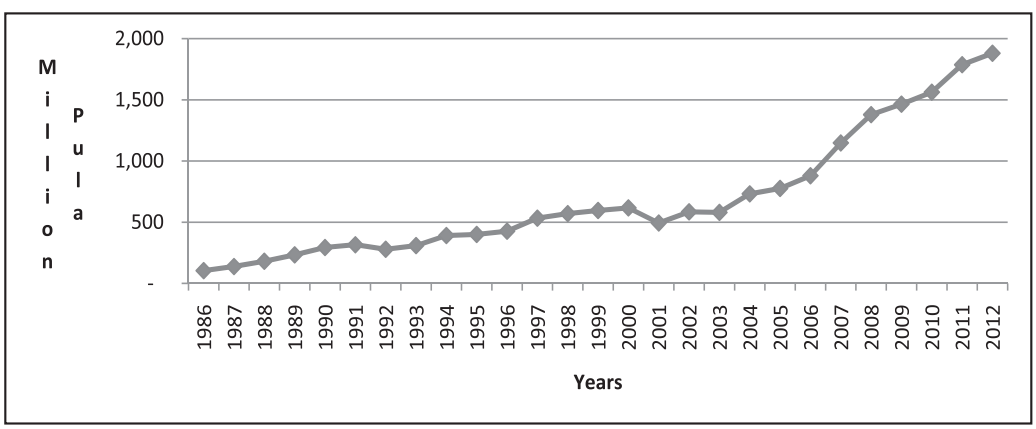
[18] Mr Craig Chow, the then Managing Director of Caratex Botswana said that the reason for company closure was that the recession has hit the industry very hard and competition was very strong and buyers are becoming realistic and opting for cheaper goods, http://www.gazettebw.com/index.php?option=com_content&view=article&id=4434

Figure 2: Botswana Textiles and Clothing Exports, 1980-2012



Source: Botswana External Trade Statistics, various.

Figure 3: Botswana Textile, Clothing and Footwear Imports, 1986-2012



Source: Botswana External Trade Statistics, various.

Direction of Trade

Table 10 shows the share of Botswana's total TC exports with major trading partners, from 2004 to 2011. The table shows that most of Botswana's exports are destined to South Africa, USA and to a lesser extent to Zimbabwe.

Table 10: Shares of Botswana TC Exports by Region and Partner, 2004-2011

Region and Partner	2004	2005	2006	2007	2008	2009	2010	2011
South Africa	45.5	26.5	39.8	35.6	62.6	81.8	88.1	91.4
Other SACU	0.1	0.2	0.4	0.2	0.2	0.2	0.0	0.2
SACU Tot	45.6	26.6	40.1	35.8	62.8	82.0	88.1	91.7
Zimbabwe	0.5	1.5	0.7	0.6	1.0	3.9	2.4	1.2
Other SADC	0.3	1.9	0.8	0.2	0.7	0.6	0.4	0.2
SADC	46.4	30.0	41.6	36.6	64.4	86.6	90.9	93.1
AFRICA	46.5	30.0	41.6	36.6	64.5	86.6	90.9	93.1
UK	6.2	15.8	22.9	39.7	19.5	2.9	0.0	0.0
Other EU	5.5	6.8	7.0	10.2	4.3	1.0	0.0	0.0
EU	11.8	22.6	30.0	49.8	23.9	3.9	0.0	0.0
ASIA	1.2	3.8	4.5	0.4	3.7	2.0	1.5	0.6
USA	40.1	43.5	23.9	13.2	7.9	7.5	7.5	6.3
Rest of the World	0.3	0.1	0.0	0.1	0.0	0.0	0.0	0.0

Source: Botswana External Trade Statistics, various and Authors' calculations.

Proportion of exports to South Africa show an upward trend from 2004 to 2011, from 45.5 percent in 2004 to 91.4 percent in 2011 while exports to USA, under the AGOA have significantly decreased over the years, from 43.5 percent in 2005 to 6.3 percent in 2011. Exports to the EU also decreased over the years, from 49.8 percent in 2007 to 3.9 percent in 2009.

Table 11 shows shares of TCF imports from major trading partners, from 2004 to 2010. Imports from Asian countries, particularly from China and Hong Kong have increased over the years. This maybe because the two countries have a comparative advantage to most of the countries in TFC production. The table also shows that Botswana sources most of her TCF products from South Africa. While the direct source of the TCF imports may be South Africa, it is likely that a significant portion is originating from China and is incorrectly classified when imported into Botswana.

Table 11: Shares of Botswana TCF Imports by Region and Partner, 2004-2010

Partner and Partner	2004	2005	2006	2007	2008	2009	2010
South Africa	88.0	81.2	83.2	79.4	77.1	84.7	85.5
Rest of SACU	0.1	0.3	0.5	0.6	0.3	0.2	0.3
SACU Tot	88.0	81.4	83.7	80.0	77.4	84.9	85.7
Zimbabwe	1.8	1.8	1.3	1.2	0.6	0.3	0.8
Rest of SADC	0.6	0.7	0.4	0.1	0.1	0.1	0.1
SADC	90.4	83.9	85.3	81.3	78.1	85.3	86.7
AFRICA	90.7	84.0	85.3	81.4	78.2	85.3	86.8
EU	0.6	0.8	0.9	0.8	0.9	0.8	0.7
China	4.9	8.6	7.8	10.3	11.9	8.2	4.8
India	1.0	1.0	1.5	1.5	1.0	0.6	0.7
Hong Kong	1.3	3.0	1.9	3.3	5.0	3.0	3.6
Rest of Asia	1.4	2.4	2.4	2.0	2.8	1.9	3.3
ASIA	8.6	15.1	13.6	17.7	20.7	13.8	12.3
Rest of the world	0.1	0.2	0.3	0.1	0.2	0.2	0.2

Source: Botswana External Trade Statistics, various and Authors' calculations.

5.1 Recent Government Policy

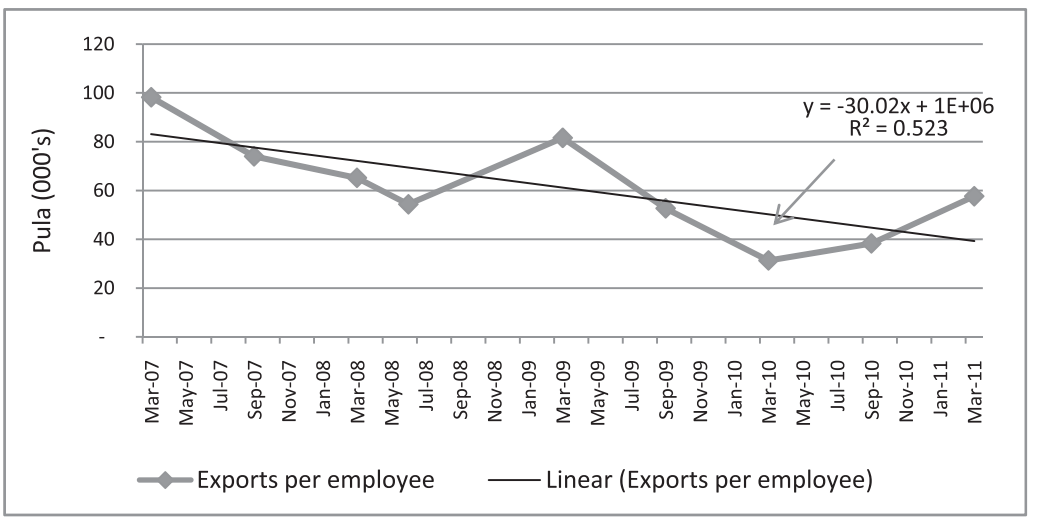
The Government of Botswana (GoB), through the Ministry of Trade and Industry developed a rescue plan to resuscitate the TC sector owing to concerns over the job losses and declining production in the sector. A total of P38 million was set aside for support measure covering a period of 2 years, from 2010 to 2011. Each firm was given a subsidy of P20 per day to be paid to citizen employees in the industry on a reimbursable basis. Industry sources indicate that in some instances the government pays between 30 up to as much as 100 percent of wages[19]. The programme has benefited 237 companies comprising of 209 small and micro, 15 medium and 13 large scale companies[20].

The industry suggested that the support measure created more than 2000 jobs in the past two years (2010 to 2011) and this includes workers who were retrenched in 2008 due to recession who have been re-employed after the industry was given the rescue package[21]. The average total employment in the TC sector was 2816 in January 2010. Those covered by the support measure at the end of 2011 was 5707, 90 percent being women. The scheme has positively benefited the sector[22]. Large firms accounted for

[19] Pers. communication with the Chairman of Botswana Textile and Clothing Association.
[20] A report to the National Committee on Trade Policy and Negotiations (NCTPN) by the Technical Committee on Export Development and Investment (TCEDIP).
[21] Pers. communication with the Chairman of Botswana Textile and Clothing Association.
[22] Note that this number refers to only those supported by the support measure; it is not the total number of employees in the sector.

69.6 percent of total employment, medium scale 15.3 percent and 15.1 percent of employees were in the small and micro firms. The support measure expired at the end of 2011 and this will seriously affect the progress made so far by the sector since 2010. Figure 4 shows that the exports per worker (an estimate of productivity) from March 2007 to March 2011 and the figure shows that while productivity fluctuated during the period under consideration it was in secular decline[23].

Figure 4: Exports per employee, 2007 Q1 to 2011 Q1



Source: Central Statistics Office (various) and Botswana External Trade Monthly Digest, November 2011

The TC industry has since submitted a proposal to GoB to extend the support measure to a further five years starting from January 2012. The industry argues that a further injection of cash will resuscitate the sector and no further jobs will be lost. It should be noted that there appear to be substantial discrepancies between the number of firms in the TC industry reported by BEDIA i.e. 60 in 2007, the 31 firms receiving the benefits of DAOs in 2010 and the number of firms receiving cash assistance i.e. 195 in November 2011[24]. By December 2011 the number of firms having received assistance from the program had risen to 237[25]. In part the program has been poorly designed, rather being a focused intervention in those firms suffering from the decline of export markets the government wage subsidy has been extended to all firms in the industry, including micro-enterprises. If the intent of the policy was to develop a sustainable clothing export industry, then the intervention was not properly designed

[23] Only exports were taken into consideration and sales for the domestic market were not taken into consideration due to lack of data.
[24] Pers. Com. with the Chairman of Botswana Textile and Clothing Association.
[25] Pers, Com. Department of Industry, April 2011.

from the outset and clearly a productivity focused program similar to the South African CTCIP would be a more appropriate approach (see Annex 3). However if the intent was simply to provide employment then it was clearly extended beyond the number of firms requiring such assistance.

In defense of the program it should be noted that exports increased from 1.4 billion Pula in 2009 to 1.8 billion Pula in 2011. Whether this can be directly attributable to the government subvention of 38 Pula million over the period cannot be readily determined. However, to the extent that the subsidies available to firms lowered cost and increased competiveness albeit temporarily, they would have expected to have the result observed.

It is understood that the proposed extension includes wide ranging options which government would consider as part of a broader strategy to help the TC sector to contribute more meaningfully to the country's economic growth. The extension also proposed the adoption of some of the production incentives schemes such as South African CTCIP. Under the CTC government should provide long term technical assistance and value chain support, SME training and offer export support. The objective of South African programme is to grow TC manufactures to enable them to be globally competitive. Such competitiveness encompasses issues of cost, quality, flexibility, reliability, adaptability and the capacity to innovate. These initiatives if implemented, could improve the performance and competitiveness of Botswana's TC sector. At present it would appear that Botswana's TC sector cannot survive without plans to sustain it as it has historically benefited from substantial government subventions, even though this may not be sustainable and is one of the most protected economic sectors in Botswana.

6. Conclusions

The paper has considered the export performance of the TC sector in Botswana and reviewed some of the various incentives aimed at improving its performance. The TC sector in Botswana was created primarily because of government policies which helped establish the sector during the 1980's and 1990's under the FAP. The TC sector grew by making use of the preferential trade arrangements as opposed to any natural comparative or commercial advantage in TC production. This sector has traditionally benefited from a number of policies including protective tariffs, quotas and export incentives. Furthermore, the preferential trade regimes put in place by the US, EU and SACU were crucial to the economic growth and development of the country.

Since the phasing out of the FAP, the TC sector in Botswana has faced many challenges. In 1993 the TC sector received a major boost after the introduction by South Africa of the DCCS. The tradable DCCS was one of the main export incentives

available to the TC sector for trade into the SACU region. The main objective of the DCCS was to make SACU exports internationally competitive by offering duty credit certificates for proven exports and the certificates were then used to claim a remission of duties on imports. The certificates earned could be sold to any importer of TC products. However, these undermined the South African clothing industry and after twelve years the DCCS was phased out and replaced by the TCIDP in 2005, which stopped the tradability of the duty credit certificate.

The TC sector only started to grow robustly after Botswana was granted the LDC status by the US under AGOA though export growth has been negative over the last five years. Exports to the EU which were in 2007 the mainstay of the industry have all but totally collapsed by 2011. The last remaining export market of any significance to Botswana is South Africa. Data shows that the sector did not perform well after the 2008/09 financial crisis, where firms laid off large parts of their workforce and some relocated back to their home countries. As a result of this, government developed a special support programme to resuscitate the sector. The special support on the sector set aside a total of P38 million covering a period of 2 years (2010 to 2011). While the program was not well designed in that larger exporting firms were not targeted exports did increase from 1.4 billion Pula in 2009 to 1.8 billion Pula in 2011. Whether this can be directly attributable to the government subvention of 38 Pula million over the period (2010 to 2011) cannot be readily determined. The industry has since submitted a proposal to extend the support measure to a further five years (see Annex 4).

The Botswana TC sector has not performed well. Given the collapse of exports to the US and EU its long term viability is highly questionable. However, if government wishes to develop what remains as the export sector then, policies and interventions need to be put in place to secure the sector's productivity and competitiveness. The sector has benefited from trade preferences and it remains to be seen whether the sector can survive without such preferences. Government needs to first address whether the sector will survive the inevitable further erosion of trade preferences and if so, the interventions need to be revised and focused on those firms best able to survive in the longer term.

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ANNEX 1: The History of International Trade in Textiles and Clothing

Date	Action taken
1957: January	Five-year agreement reached with Japan on limiting overall textile exports to United States.
1958: November	United Kingdom signs "voluntary" limitation on cotton T&C products with Hong Kong after threatening imposition at lower than prevailing volume levels.
1959: September	United Kingdom signs similar restraint agreements with India and Pakistan.
1960: November	GATT Contracting Parties recognize the problem of "market disruption", even if it is just threatened, serves as "excuse" for establishing future Non-Tariff Barriers.
1961: July	The Short Term Arrangement (STA) is agreed upon.
1962: February	The Long Term Arrangement (LTA) is agreed upon to commence of the October 1, 1962, and last for five years.
1966: June	The UK implements a global quota scheme in violation of the LTA. (The LTA provides only for product-specific restraints).
1967: April	Agreement is reached to extend the LTA for three years.
1970: October	Agreement is reached to extend the LTA for three years (It was later extended an additional three months to fill the gap until the MFA came into effect.
1973: December	It is agreed that the MFA will begin on January 1, 1974, and last for four years.
1977: July	The European Economic Community and the US negotiate bilateral agreements with developing countries prior to extension of the MFA.
1977: December	The MFA is extended for four years.
1981: December	The MFA is renewed for five years. The US, under pressure from increased imports resulting dollar depreciation, negotiates tough quotas.
1986: July	The MFA is extended for five years, to conclude with Uruguay Round.
1991: July	The MFA is extended pending the outcome of the Uruguay Round negotiations.
1993: December	The Uruguay Round draft final act for a 10-year phase-out of all MFA and other quotas on textiles in ATC. MFA extended until Uruguay Round comes into effect.
1995: January	1st ATC tranche liberalised by importing countries 16% of the 1990 import volume.
1998: January	2nd ATC tranche liberalised by importing countries 17% of 1990 import volume
2002: January	3rd ATC tranche liberalised by importing countries 18% of 1990 import volume.
2005: January	4th ATC tranche liberalised by importing countries 49% of 1990 import volume.

Source: www.domain-b.com/industry/textiles based on D Spinanger, "Faking Liberalisation and Finagling Protectionism: The ATC at its Best", Background Paper for the WTO 2000 Negotiations: Mediterranean Interests and Perspectives, Cairo.

ANNEX 2: The Duty Credit Certificate Scheme

Table 1: Qualifying exports under the DCCS

Product	Tariff Heading
Clothing and clothing accessories	61.01 to 61.17 62.01 to 62.17
Household textiles	63.01 to 63.04
Fabrics and other textiles	51.11 to 51.13 52.08 to 52.12 53.09 to 53.11 54.07 to 54.08 55.12 to 55.16 56.03 58.01 to 58.04 58.06 58.08 58.10 to 58.11 59.01 to 59.03 59.06 to 59.07 60.01 to 60.06
Yarn	51.06 to 51.10 52.04 to 52.07 53.06 to 53.08 54.01 to 54.06 55.08 to 55.11

Source: DCCS Guidelines version 2004.1, ITAC

Table 2: Allowed imports under the DCCS

Exporter	Product exported	Product allowed to be imported
Manufacturer of Woven and Knited Clothing and Clothing Accessories	Clothing Clothing Accessories	Fabric Clothing Clothing Accessories
Manufacturer of "knit-to shape" Clothing and Clothing Accessories	Clothing Clothing Accessories	Yarn Clothing Clothing Accessories
Manufacturer of Household Textiles	Household Textiles	Fabric Household Textiles
Manufacturer of Fabric and Other Textiles	Fabric Other Textiles	Yarn Fabric Other Textiles

Source: DCCS Guidelines version 2004.1, ITAC

Table 4: Level of benefit under the TCIDP

Product Exported	Benefit level
Clothing	25%
Household Textiles	17.5%
Fabric	12.5%
Yarn	8%

Source: ITAC, 2008

Table 5: Qualifying exports under TCIDP

Product	Tariff Heading
Clothing and clothing accessories	61.01 to 61.17 62.01 to 62.17
Household textiles	56.09 57.01 to 57.05 58.05 63.01 to 63.04
Fabrics and other textiles	50.07 51.11 to 51.13 52.08 to 52.12 53.09 to 53.11 54.07 to 54.08 55.12 to 55.16 56.02 to 56.03 58.01 to 58.05 58.06 to 58.11 59.01 to 59.03 59.06 to 59.07 60.01 to 60.06
Yarn	50.04 to 50.06 51.06 to 51.10 52.04 to 52.07 53.06 to 53.08 54.01 to 54.06 55.08 to 55.11 56.04 to 56.06

Source: ITAC, 2008

ANNEX 3: South Africa's Textile and Clothing Support Programmes

Following the withdrawal of the DCCS, South Africa moved to introduce a program of assistance to its own TCF sector in 2008 that was based on financial as opposed to trade measures which were of questionable WTO compatability. In order to increase the competitiveness and international efficiency of firms in the TCF sector the South African government developed a number of interventions which include some programmes that have been described above. This range of interventions includes the following:

i. Capital Upgrading Programme – EIP/MIP
ii. Preferential Loans from the Industrial Development Corporation (IDC)
iii. Clothing and Textiles Competitiveness Improvement Programme (CTCIP)
iv. Production Incentive Programme

i) Manufacturing Investment Program (MIP)

The MIP is a reimbursable cash grant for local and foreign-owned manufactures who wish to establish a new production facility; expand an existing production facility; or upgrade an existing facility in the clothing and textiles sector. The objectives of the programs are to stimulate investment in manufacturing; to increase employment opportunities; and sustain enterprise growth. The benefits derived include an investment grant of 30% of the investment cost of qualifying assets for new or expansion projects below R 5 million. For investments above R 5 million the investment grant is between 15% to 30% of the investment cost of qualifying assets for new or expansion projects. Qualifying assets include machinery and equipment, buildings, and commercial vehicles.

The MIP and Foreign Investment Grant (FIG): 2008 to March 2011, 846 projects approved, with ZAR 2,292,008,317 of funds committed at total cost to fiscus of ZAR 198,380,873, creating 2 851 direct jobs and is projected to eventually create 23,996 direct jobs[26].

ii) Preferential Loans from the Industrial Development Corporation (IDC)

A preferential loan scheme for the clothing and textiles sector (via the IDC) is also available for capital upgrading aimed at competitiveness improvement at prime less 5% Working capital loans are also available at an interest rate to be determined

[26] Presentation by the Department of Trade and Industry to the Portfolio Committee on Trade and Industry, 19 October 2011 in Wentworth L(2012) South Africa's Investment Landscape: Mapping Economic Incentives, South African Institute of International Affairs, Occasional Paper

per applicant. The minimum loan amount is R1-million and the maximum of R40-million per project[27].

iii) Clothing and Textile Competitiveness Improvement Program(CTCIP)

The purpose of the CTCIP is to build capacity among manufacturers and in other areas of the apparel value chain in South Africa, to enable them to effectively supply their customers. These role-players include major retailers, government and a number of niche markets, both local and international. The Programme aims to grow South African-based TC manufacturers to enable them to be globally competitive. Such competitiveness encompasses issues of cost, quality, flexibility, reliability, adaptability and the capability to innovate. The intervention includes activities relating to people, equipment, materials and processes.

To compete sustainably and effectively against international competitors in both the domestic and the export markets, company-level competitiveness should be improved substantially. Both the TC sectors lag behind their international competitors in terms of conversion efficiencies and other key indicators of world-class manufacturing principles, of which quality, cost and delivery are the main drivers.
The applicable investment grant depends on whether it is aimed at individual firms or clusters

- The incentive programme provides investment support to both locally and foreign-owned entities by offering a cost-sharing grant incentive of 75% of project cost for cluster projects and 65% of project cost for company-level projects.
- The company-level grant will support the competitiveness improvement initiatives of qualifying companies through the provision of 65:35 cost-sharing grants: 65% from the CTCIP grant and 35% from the company. Grant support for each company will be limited to a cumulative ceiling of R2,5 million over the five-year period of programme implementation.
- The cluster grant will support the development of clusters through the provision of 75:25 cost-sharing grants: 75% from the CTCIP grant and 25% from the cluster participants. Grant support for each approved partnership will be limited to a cumulative ceiling of R25 million over the five-year period of programme implementation.

It is expected that project outcomes should impact positively on the productivity and competitiveness of the business activities of the company, or the companies forming a cluster. Typical project outcomes should lead to increased (maintained) market

[27] http://www.idc.co.za/about-idc/23-finance-by-sector/textiles-and-clothing/69-clothing-textiles-leather-a-footwear-competitiveness-scheme downloaded 20 May 2012.

share/penetration; increased labour or capital productivity; increased skills levels of employees; improved product/service quality, uniformity and reliability; improved product design, packaging design, etc.; improved response times to client orders and order changes; and the introduction or adoption of new technologies or techniques that result in the diversification or extension of the company's or cluster's range of saleable products or services.

iv) Production Incentive (PI)

The PI is aimed at structurally changing the clothing, textiles, footwear, leather and leather goods manufacturing industries by providing funding assistance for these sectors to invest in competitiveness improvement interventions. It is meant to encourage and support upgrading and competitiveness improvement programmes in the sector. The programme runs for a period of 5 years until 31 March 2015.

This is a facility provided through the DTI and IDC to assist firms in obtaining subventions for working capital or as an upgrade grant. The size of the grant is subject to the value addition of the industry but is limited to 10% of value added. The up-grade grant can be used for upgrading equipment; developing people; improving manufacturing processes; optimising materials used; or developing new products. The working capital can be obtained at prime interest rate from the IDC. No public data is available on the performance of the various CTCIP elements with the exception of the MIP as described above.

The implication of these support programs on Botswana would mean that South African TC firms increase their competitiveness and international efficiency and Botswana firms would be left behind. This would then mean that Botswana continue to fail to compete with its powerful neighbour in TC production and firms may in the long run relocate to South Africa attracted by the various incentives offered there.

ANNEX 4: Industry Proposals

Below are a number of policy proposals, many articulated by the private sector itself, which may help resuscitate the industry and contribute to shaping a more sustainable environment to help sustain it in the competitive world. While the industry proposals are positive they need to be evaluated within the context of the role that the sector will play in overall industrial policy of the country to determine the long term viability of the sector which is in question in light of the analysis above. These industry proposals include;

- Upgrading of vocational training facilities to impart skills and train workers and also encourage firms to utilise the Botswana Training Authority training levy which has been underutilized in the past
- Extend the special support programme on an interim basis so as to help the sector grow and create more employment opportunities. However, there appears to be a substantial discrepancy between the number of firms receiving support (237) and the number of companies estimated by BEDIA in 2007 (60), the peak of the industry's exports. These discrepancies require further explanation.
- Consideration of the adoption of a production incentive scheme such as the South African (CTCIP) as suggested by the industry. The CTCIP is aimed at creating a group of globally competitive textile and clothing companies, thus ensuring a sustainable environment that will retain and grow employment levels. The purpose of the CTCIP is to build capacity among manufactures and in other areas of the apparel value chain and to enable them to effectively supply their customers (DTI, 2009). This would in effect mean teh development of a long term approach to the competitiveness of the industry.
- Botswana should advocate a tariff policy that protects her priority export sectors by maintaining high tariff final products while simultaneously reducing tariffs on imported inputs to duty free or near duty free levels. The difficulty with this approach, as discussed above is that this often results in Botswana's interest being opposed to that of those South African firms which supply inputs into the clothing industry.
- Developing a long term strategy to improve the competitiveness of the Botswana textile and clothing industries and boost their export performance.
- Further research into the sector should be carried out to identify opportunities, limitations and increase overall knowledge of the sector so as to enable other potential investors to actively participate in the sector.